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**Case Study**

**Rural Financial Institutions: Savings Mobilization**

**The Bolivian Experience of the Prodem Private  
Financial Fund S.A.**

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## **Introductory Information**

- This section includes a description of the institution and its program , including what makes the program special or different from other programs

FFP Prodem S.A was formed based on its successful thirteen year experience with the PRODEM Foundation providing financial support to economic units which had no possibility to access financing sources in the traditional banking system. Solidarity group loans made their projects and business initiatives possible.

In August 1998, PRODEM Private Financial Fund S.A. (FFP PRODEM) was created and organized as a Private Financial Fund, legally constituted, authorized and supervised by the Banks Superintendence of Bolivia (SBEF). FFP PRODEM initiated operations in January 2000. The main objective of the enterprise is to provide sustainable financial services for the majority of the population. Its main target market is defined as the micro, small, and medium entrepreneurs in urban and rural areas. The main products offered to the target market are loans (investment and working capital), savings accounts, time deposits, national and international money transfers, payroll payments, contingent operations and other ancillary financial services authorized by law, within the Bolivian territory.

FFP Prodem S.A., operates in Bolivia through its national main office and a network of sixty-three branches in the nine Departments of the country, twenty-one in urban areas and forty-two in intermediate cities and rural areas. It provides the widest coverage in the Bolivian financial system with the most important rural coverage compared to Commercial Banks, Savings and Loans Association, Cooperatives and non regulated financial NGO's.

In the last two decades, the Bolivian experience in the microcredit field has been recognized internationally as a successful financial experience for low income people that do not have access to traditional banks. All institutions that serve this market have developed different technologies, plans and strategies, mainly for credit services in urban areas of Latin America, offering to the urban micro and small entrepreneur options of a wide variety of alternatives.

Even though great advances have been achieved in credit services in Bolivia, important development opportunities for microfinance industry still exist, namely, to operate in rural areas in a sustainable way and to be able to mobilize savings from the micro, small and medium entrepreneurs in both urban and rural areas.

The experience of FFP PRODEM S.A. has demonstrated that it is possible to work as a regulated entity with competitive market prices for financial products and services, not only in urban but rural areas and intermediate cities, while obtaining great results. The key element of the success is the technology that has been implemented mainly to serve rural markets. These innovations allowed for greater levels of administrative efficiency, loan portfolio management, savings and other services that contribute to greater productivity.

- Statement of Purpose

To offer state-of-the-art financial products and excellent services to permanently meet the needs of our urban and rural clients, allowing the country's development, through a staff committed to total quality, change, innovation, efficiency and profitability.

- Date initiated and length of time in operation

FFP PRODEM S.A. launched its savings accounts, incorporating the "smart card" and fingerprint control, nationwide in March 2001. Before implementing the product at a national level, a pilot test was conducted in Caranavi, a rural community with more than 51,000 inhabitants.

Caranavi was chosen for its geographical location. It is 170 kilometers away from the city of La Paz, and the access is difficult due to the constant landslides that block the roads. Also, it is the economic center for more than 300 agricultural colonies that settled in the surrounding area, and it is the main entrance to Beni and the Amazon region of the country, a very important expansion zone with a great potential for economic growth in the future.

The pilot test was launched in November 2000, where the first savings accounts with a "Smart Card" were introduced to the market. There was a great response from the residents of Caranavi, the same day of launching the office was full with lines of people waiting to have "the card"; the situation prevailed throughout the following weeks.

One month after the service was implemented and prior to the massive launch, focus groups took place to analyze customer satisfaction with the product and to collect opinions about the benefits the customers found in the product. The focus groups also collected suggestions and advice on how to improve the product and give better service to our clients. The objective was to evaluate and determine customers need and expectations before the massive launch. The results were:

- The main reason why they open their savings account was due to the security of the fingerprint.
- It was a status symbol for clients to have a "smart card"
- FFP PRODEM S.A. coverage, the biggest network of agencies in the country
- The minimum amount to open a savings account was feasible, accessibility to have a savings account (\$US 10)
- The ease of withdrawal, clients do not have to show any type of ID to get their money.
- Many suggestions they made were aimed at our advertising campaign, mainly towards the radio jingle that was not understood by the target group.

With the results of the research, some pieces of the advertising campaign were changed using the suggestions obtained in the focus groups. The advertising campaign focused on the security, status, coverage, access and simplicity of a FFP PRODEM savings account with smart card and fingerprint control. As of March 2003, the institution has achieved a level of savings of \$US 10.38 million with more than 38,300 accounts, with an average of \$US 271 per account. When planning the development of our savings

account product, we estimated that the average balance per account would be \$US 90, underestimating it because of the lack of information of savings mobilization in rural areas.

We have surpassed the competition in attracting savings accounts, in only two years, despite the fact that the competition had twelve years experience in the market prior to our entry. This shows the potential of this product nationwide, breaking the paradigm that in rural areas and intermediate cities of the country no internal savings are generated.

- Number of persons reached, level of savings mobilized, volume of loans disbursed, use of credible financial service methodology, portfolio quality, types of activities supported

In Bolivia, massive savings products have never been developed for the low income segments of the population, especially in the agricultural sectors or rural zones. Seventy percent of the economic activity of Bolivia takes place in the central axis of the country, which is composed by the cities of La Paz, Cochabamba and Santa Cruz. A greater number of financial institutions are concentrated in these cities, where 39.4 percent of the total population is located (La Paz & El Alto have 18 percent, Cochabamba 6.2 percent, Santa Cruz 15.2 percent).

FFP Prodem works with the firm purpose of being the financial institution for the majority. This is the reason it has the biggest coverage with branches in all nine departments of the country, including urban, intermediate cities and rural areas. The company firmly believes in the economic integration of people living in rural zones with the urban areas.

The types of activities supported are: commerce, production, services, and agriculture. There is no discrimination of sectors or activities that are productive. Our goal is to reach the Bolivian majorities to offer them access to financial services, regardless of which area in the country they live.

Our portfolio is diversified in sixty three agencies from urban, to intermediate cities and to rural areas located in different localities of the country, contributing to the atomization of our loan disbursements, without concentrating in homogenous zones. On the other hand, our loans are distributed in the following areas: commerce, production, services, agriculture, and others of lesser importance, having an average loan of \$US 2,277, which is relatively low and helps to diminish risk by avoiding concentrations of large amounts in just a few clients.

Product as of 03/03	Amount \$US	Clients
Savings Accounts	10,389,786	38,324
Time Deposits	29,117,142	3,285
Loan Portfolio	45,095,143	21,461
Total Clients Served		63,070

## **Results and Impact**

- The extent to which the proposed products, services and delivery methodology are innovative or respond to market demands are discussed in this section.

In the past the theory defined that the most important element to attract saving deposits were interest rates for different saving products. That has been proven wrong by research conducted in Bolivia covering our clients, and clients from other financial institutions. We found that people who have a savings account place more importance on the security of their money and the fact that they can freely and easily access the money rather than paying attention to the interest rate that their money is earning. However, clients that have a time deposit care about the interest rate and the institution's security and backup.

Another commonly utilized factor that is used worldwide is the false perception that clients who open savings accounts due to prizes or raffles promoted by financial institutions will stay in the company in the long run.

Therefore, FFP PRODEM S.A.'s approach is totally different to a traditional banks' approach. Our purpose is to transmit security and transparency of the savings account. Our fifteen years of experience in the sector are the foundation of a relationship based on trust, and have helped to convert the FFP PRODEM S.A. in to an important community asset.

Internal savings in any country is the best resource for national development, thus the same concept applies to local communities. If a town achieves 100% savings rate, then we know that the loans disbursed will be easier to recover, because the resources for loans come from the community. Additionally, non-payment debtor associations will not surge, because it is "their money" that is involved. The attraction of savings in intermediate cities and rural areas prevents the creation of irregular debtor movements, because saving customers take care of their institution. For example, in Batallas a rural area located sixty kilometers from La Paz, where we have clients that belong to the Debtors Association, took over a financial NGO in the community but did not target our company, because their savings were there and the additional value that our company has throughout the wide range of services we offer, besides lending.

For FFP PRODEM S.A. savings mobilization for the majority is extremely important because it involves: i) the permanence of the institution in the long run; ii) the reduction of financial costs; iii) the capacity to increase and diversify sources of income; iv) the availability of resources for loan portfolio growth; v) increased client loyalty; and vi) the best option to administrate clients savings.

## **The Product**

FFP PRODEM S.A has designed and implemented a savings account that incorporates the "smart card" and fingerprint control, technology that was developed in Bolivia by a local company, for the following reasons:

- High communication costs restrain on line network.
- High level of illiteracy in rural areas.
- Systems security.
- Lack of identification instruments (ID card).

A savings account with a smart card uses microchip technology.. A card with an embedded microchip allows microfinance institutions to have saving deposits without being on-line. The balance and account transactions are kept in the microchip. Being on line would cost the company an additional \$US 700,000 per year, this cost is impossible to absorb until we reach a scale of transactions that justify being on line.

The fingerprint as a control method for the savings account was developed because twenty-seven percent of our clients do not read or write. Most clients are women who live in rural areas. In the past, many of our clients instead of signing credit contracts used their fingerprint because they did not know how to write. This fact led us to use this tool as a means of identification and given the fact that no two fingerprints are alike, we could be assured of a secure identification.

The using fingerprint identification not only increases the client security but the transaction process for the client because there are no more withdrawal or deposit slips to fill out. Furthermore, a client no longer has to present an ID. This is especially important in rural areas where identification instruments are scarce. In intermediate cities and rural areas is quite difficult to get an ID card, because civil registration is located in the capital of every department. It is very difficult for people living in rural areas to travel to the city. When they arrive they must stay for at least three days until they get an ID. In some cases they do not have the correct papers to register and they have to go back to their communities without an ID card.

In light of these difficulties, FFP PRODEM S.A.'s top management lobbied the government and the SBEF to accept other types of IDs to open a savings account, such as birth certificates, and amilitary service certificate. Additionally, expired ID cards for persons over sixty-five years old are accepted in all financial institutions. Our company's main purpose in obtaining such authorizations is to democratize savings for the Bolivian populace.

The technological innovation of our savings product is a success and shows positive future tendencies (monthly average growth of fifteen percent), we expect to increase our monthly growth average once we have all our AITM's installed, this will definitely allow a greater diversification in savings for the institution.

Security, simplicity, accessibility, quickness and the reach of this innovative instrument, makes savings development possible, and established a benchmark in Bolivian and Latin American microfinance development.

The figures are eloquent by themselves, considering that in two years of operations, FFP PRODEM S.A. has become the main player with the largest market share in the area of deposits among other FFPs, even though these entities have been in the market many years prior to our entry.

FFP PRODEM S.A. has set savings mobilization as a priority in order to help promote sustainable development for the local economies. Our Automatic Intelligent Teller Machines (AITM's) have high security levels and allow clients to access to their money twenty-four hours a day. The AITM has many other unique features. Our clients can perform financial transactions in Spanish, Aymara, or Quechua. The AITM machine operates through multimedia technology, where it gives instructions to the client on how to use the machine. All these options are selected by touching a menu on the screen, which has been designed using distinctive colors, so our target market will have no problem in using top of the line technology that was specifically created for the Bolivian majority based on their needs.

AN additional success has been to offering a simple product that was quickly adopted by our clients. This is important because we are sure that family units with low income lose more money by not having access to deposits (savings account) than to credit itself. A person who does not save does not grow.

### **Service**

Savings accounts with smart cards can be obtained in all sixty-three branches, located all over the country. The service that we bring to our customers is personalized on a one to one basis, where all attributes of the product are explained according to the type of client using appropriate sales arguments. Accessibility to the savings account is one of the advantages of our product. Furthermore, the customer only needs \$US 10 to open an account, and the maintenance fee is \$US 7 per year, payable one year after the account has been opened.

The savings account with smart card incorporates the security of the fingerprint control, and the four-digit PIN number is replaced by a 300-digit encrypted code. It also eliminates fraud possibilities such as the use of lost or stolen documents, adulteration of physical components, forgery, coordinated fraud and the fact that without the client the money can not be accessed.

The commercial benefits of having a smart card are to offer financial services to majority of the population, obtain a technology that most banks do not offer to our clients, it does not require ID's for withdrawal and eliminates the filling of forms to make transactions.

### **Delivery**

Our customers have access to their savings accounts through all of our branches staffed with personnel committed to excellent service. Additionally, our customers have twenty-four hour access in twenty agencies where we have AITM's (fouteen more will be installed by July 2003).

For first time in Bolivian history there are Automatic Intelligent Teller Machines in all nine departments of the country and in rural areas. As explained before the AITM has many unique features. Our customers can perform their financial transaction in native languages or Spanish, and if they are illiterate the multimedia system guides them using vivid colors until their transaction is finished.

- Social Impact: Household income increased, education and nutrition improved, job were created and sustained

The direct impact among thousands of citizens is that by putting their savings in smart card saving accounts or in time deposits, they will no longer put their money at risk to

robberies, fires, or hungry mice. We have many cases where customers come with their money completely destroyed, and according to the Central Bank of Bolivia if the bill loses a signature or if one of the security codes is broken, it may not be exchanged for a new one and the customer loses the money he/she has been saving for many years.

The fact that citizens can now count on savings accounts in their communities allows them to make a bridge with urban markets in a different way. For example, rural clients that sell their products to wholesale markets can receive payments through deposits done directly into their savings accounts, or if they are traveling to urban areas to buy staples and supplies for their business or home, they no longer need to carry the money with them, they can just make a withdrawal from the nearest agency or AITM when they arrive at their destination at no extra cost.

This system also allows rural families to save time and money by directly depositing money in to their children's accounts if they study in other cities of the country. It is important to mention that for example, in the city of Sucre there are more than 38,000 university students, so far 4,000 have become our clients because their parents are using FFP Prodem network somewhere in the country to deposit the money for tuition and living expenses, the rest are still potential customers. Our growth records for savings accounts and AITM transactions clearly show the success of this product in Sucre.

Another important service is the Emergency Employment Plan created by the government, whose objective is to generate job opportunities for the development of localities through their local government (municipalities). FFP Prodem entered an agreement to register projects and pay employees in all of our agencies. In less than two weeks we registered approximately 75,000 people, of whom ten percent opened a savings account in which their salaries are deposited directly to the accounts, the remaining ninety are potential customers.

- Sustainability: Cost recovery and operational efficiency, financial sufficiency, earnings, extent to which program results in increased leverage of private sector capital.

Investment in Information Systems	Amount (\$US)
SIPRO	300,000
Smart Card	100,000
AITM's	200,000
<b>Total Investment</b>	<b>600,000</b>
Income generated (2002)	
Credit Loans	10,124,057
Other services	962,553
<b>TOTAL</b>	<b>11,086,610</b>
Funding Cost Reduction through savings acc.	854,175

(Reduction of our cost in funding from 7.62% in Dec.2001 to 5.55% in Dec. 2002)  
(5.30% March 2003)

As can be seen, the investment in information systems can be recovered within a year. As savings accounts keep growing, the cost of our funds should eventually level out at 4.3 percent.



The efficiency of our operations is improving over time. In the past, our branches' fixed costs were clearly covered by financial income from the loan portfolio. Today, we find that in some agencies, the payroll is paid in full by income generated by other services such as national and international wire transfers, housing subsidies, commissions for the reception of payments for long distance carrier, and other services offered by our agencies.

If by the end of the year the company achieves savings accounts deposits representing thirty-two percent of FFP's funding we would save 0.72 percent of the funding cost, which represents 2.14 monthly payrolls (more than US\$ 300,000). What is interesting to consider is that that ATM's never represented a serious structured model for massive public savings mobilization, because it was thought that the administrative costs of this product would be too high. However, as can be observed in this document, the success of the FFP PRODEM S.A. is based on the consolidation of its savings accounts. The fact that customers started to demonstrate a voluntary savings behavior helps to consolidate the FFP position in the market. Obtaining trust takes time and appropriate technology.

The funding that most MFI's usually have, is based on low cost resources for their loan portfolios, these resources are obtained from social investors, bilateral, multilateral institutions, and second tier government entities. Since these types of funds are available, the MFI's do not feel the need to develop a strong program of local savings mobilization.

In fact, if the administrative cost or imposed conditionings on these "soft loans" were measured, the MFI's end up with relatively higher costs than if they were to mobilize deposits.

As previously mentioned, FFP Prodem is convinced that savings accounts are the best option to leverage its loan portfolio growth with a cost of funds that reach 2.45 percent a year. Furthermore, social investors, bilateral, multilateral institutions, and second tier government entities should provide more long and medium term loans to MFI's, to support portfolio growth for investment in the small and medium enterprises and also for the development of social housing. These resources are necessary until the economic situation of many countries become more stable.

## **Challenges with Project Implementation**

- This section covers the methods used to overcome challenges in project implementation.

First of all, our company analyzed what was in the market and the literature about savings mobilization related to other countries. The most outstanding experience was in Indonesia. However, Indonesia's success was more related to the state support given to the bank and not by innovations forced by private competition. Additionally, technological variables applied to the sector were not included.

We also searched companies with expertise in technological development that offered massive services for savings accounts, easy to use with clients who had little education, accessible connectivity costs, and simple and secure processes.

Once the research was completed and the characteristics of our market were obtained, we concluded that our best option was the use of a smart card with an incorporated microchip, where savings accounts balances did not have to be transferred on line.

Instead, the outstanding balance was carried in the microchip that also stores all the necessary information about the customer, such as his/her personal data, account number, transactions performed and his/her fingerprint. This “chip” is what makes the card smart, therefore it is not necessary to be online to obtain customer information, and the balance in his/her savings accounts is always at hand.

The proposed cost for such a product was exuberant and many commissions and property rights existed for the use of it. Furthermore, the estimated implementation time was more than two years, plus one more year needed for testing, which did not allow us the necessary lead time over our competitors, since this product would be our strategic advantage in savings.

The experience of our employees and a clear management vision structured a strategic alliance with INNOVA Empresarial, a Bolivian company specialized in hardware and software development for the Microfinance Industry.

- Outreach, training and education needed

Many times through history the democratization of financial service has been aimed towards less attended sectors with mechanisms generally managed by State Banks, NGO's, using combinations of technical assistance and credit, and mandatory savings schemes. However, these mechanisms are not sustainable over time because they depend on resources that come from donations or concessionary conditions that in general do not reflect the reality of nations.

In Bolivia the options for clients living in rural areas were their community cooperatives. Even if this were an acceptable option, it did not stand up to the expectations of the customers, because they needed was to withdraw or deposit their resources in towns where their commercial transactions took place, those between the city and the countryside, often outside of usual business hours. The approach of the FFP PRODEM S.A. breaks all paradigms of the industry, because it was believed that the rural population did not have capacity to save. However, no one ever bothered to explain to rural residents the benefit of regular savings and how these resources will affect their regions development. It has always been easier to use the State Bank to win votes and maintain people at a disadvantage while deteriorating their life quality. People loose thousands of dollars per year due to fires, robberies or deteriorated bills. It is imperative that people with scarce resources are made aware and understand that the concept of financial freedom starts with savings, even if it is only cents per day.

- Management Capacity: The experience and track record of organization leadership and management, and potential to expand operations.

From the first moment we decided that we were going to create a regulated financial entity, we knew that if we were successful in mobilizing services we only had half of the road covered. The new entity needed to have a vision and a mission promoted by management and staff (a management driven company) that was shared and approved of by the Board. Also in order to achieve high quality services and an extended network of branches, company ownership had to be offered to the employees. Knowing the great challenges that awaited us in supporting urban and rural operations in a country where the infrastructure is deficient and distances between cities are large, we could not only rely on salary as a remuneration means. Therefore, we implemented employee incentives based on portfolio growth and quality.

We were the first financial entity in the country to include the employees as part owners of the company.

With the creation of the FFP we had to hire professionals with experience in banking operations, making sure that the personal and professional profiles fit the institutional culture of PRODEM.

### **Policy and Donor recommendations based on your experience**

- Ideas for generalizing innovation or technology to new areas or broadening scope

#### **Policy**

- Generate a differentiated Legal Reserve policy to promote mainly rural savings.
- Governments should develop simple personal identification mechanisms in rural areas or allow the use of alternative technologies to identify clients (fingerprint systems).
- Governments and donors should create policies to encourage public savings mobilization, in order to leverage loan operations directly with more convenient interest rates for clients, to prevent a disloyal competence towards savings mobilization versus concessionary financing.
- Governments should support the diffusion and better understanding of the judicial status, its functions and regulation mechanisms that control specialized entities in financial services for majorities or, promote faster conversion mechanisms to specialized banking entities that facilitate the generation of savings.
- Create policies that look for complements between NGO's and specialized regulated entities in massive financial services, preventing a competition that distorts the development of rural financial services in market conditions, and instead orient its institutional objectives towards other complementary areas that will allow a better development of micro, small, and medium entrepreneurs, such as technical assistance and commercialization services.
- Governments should support the introduction of new technologies to improve financial intermediation services, mainly savings.

#### **Donors**

- Support technological development in regulated MFI's to serve segments not attended by traditional banking, recognizing the differences and limitations that these sectors have, such as lack of education and scarce access to personal documentation (ID cards, property titles, etc).
- Support the spread of specialized and proven technologies in the development of mechanisms that benefit the capture of massive savings, especially in rural areas.
- Do not subsidize operation costs of new expansions of MFI's, but definitely support the equipment required to operate in rural areas.
- Long term funding from social investors, government, bilateral and multilateral in local currency or index to local inflation through the use of Incentive Housing Units (UFV).

- Lessons for donor community- what are the keys to success?

### **Final Conclusions**

- There is capacity to mobilize savings in rural areas, if and only if we count with clear policies, adequate resources from donors, and development of mechanisms adapted to the reality and necessities of rural areas.
- The acquisition of deposits in communities greatly improves institutional credibility and loan recovery.
- Low-income clients want and deserve exactly the same services as educated and high-income people.
- Develop a concept of a full service bank for the majority. It has more sustainability in the long run than only microcredit as the only tool for helping the low-income citizens of the world.
- Adapting top of the line methodologies helps lower costs of operations in rural areas.
- Working with and for the community assures the institutional viability because it becomes a tangible asset.
- Support the technology and technical assistance transfer among developing countries that have similarities.
- It is important to engage the private sector with experience to take active participation in the development of policies to improve majority life style, since the results obtained even in adverse conditions show the capacity to operate efficiently.